

AIRPORT COMMISSION:

Cash Handling Audit of Security Access Office

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December 10, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Paige Alderete, Audit Manager
Vivian Chu, Associate Auditor
Donna Crume, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

December 10, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the cash handling audit of the Security Access Office (SAO) at San Francisco International Airport (Airport). The SAO is responsible for issuing and managing airport identification (ID) badges, security keys, and vehicle permits; conducting security and safety training; and issuing film, free speech booth, and Berman Reflection Room permits.

Audit Period: May 6, 2008, through April 21, 2009

Results: The SAO:

- Deposited all cash received.
- Did not have appropriate internal controls to ensure that all cash is accounted for.
- Did not always deposit cash promptly.

The audit includes 14 recommendations for improving SAO's cash handling procedures. The Airport's response to the audit is attached as Appendix A. The Controller's Office, City Services Auditor, will follow up with the Airport on the status of the recommendations made in this report.

Respectfully submitted,

Tonia Lediju
Director of Audits

cc: Mayor
Board of Supervisors
Budget Analyst
Civil Grand Jury
Public Library

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INTRODUCTION

Audit Authority

The City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. This audit was conducted under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

The Airport Security Access Office (SAO) is responsible for issuing and managing identification badges, security keys, and vehicle permits; conducting security and safety training; and issuing film, free speech booth, and Berman Reflection Room permits¹ at San Francisco International Airport (Airport). The SAO has two locations, a main office and the Annex, and has annual receipts of approximately \$490,000. Of that amount, the Annex receives approximately \$46,000, or 9 percent. Both the main office and the Annex are currently located on the same floor of Terminal 1.

The Airport allows various types of payment for its security access services: cash, check, credit card, draw-down (prepaid) accounts, and customer billing. Draw-down accounts and customer billing services are options for customers who have an ongoing relationship with the Airport; these types of accounts are co-managed by the Airport Accounting unit. Airport Accounting is responsible for payments received through a lock box. For customers paying onsite, the main office accepts cash, check, and credit card payments for all services; the Annex does not accept credit cards and provides limited services.

SAO uses three systems to manage its customer accounts:

- Monitor Dynamic Inc. (MDI)
- Property Management Billing System (PMBS)
- Cash receipt books

These systems do not interface. The MDI is used to manually verify that customers have met all criteria required for issuing a permit or badge, but does not track payments or daily transactions. The PMBS system is an airport-wide billing system managed by Airport Accounting, and is reconciled to an SAO spreadsheet used to track transactions for customers using billing services. Cash

¹ The free speech booth and the Berman Reflection Room are spaces available for rent.

receipt books are used to track all customers paying with cash, check, or credit card at the main office, and cash and check at the Annex.

SAO is in the process of acquiring a point-of-sale (POS) system and anticipates transitioning to the new system by the end of calendar year 2009. According to the SAO manager, the new system will interface with Airport Accounting and the PMBS system.

Objectives, Scope and Methodology

The purpose of this audit was to determine if the SAO has adequate controls to ensure that all payments received are deposited and that all cash deposits are complete, accurate, and timely. The auditors reviewed cash payments received in the SAO main office and Annex from May 6, 2008, through April 21, 2009.

To conduct the audit, the audit team:

- Reviewed SAO's cash handling controls through direct observation, a questionnaire, and interviews of SAO management, employees, and Airport Accounting staff.
- Collected all daily tally sheets and summarized them by the individuals handling cash.
- Reviewed gaps in the numbered receipts in the SAO's records and tested those gaps. This test was based on a judgmental sample of 32 gaps in receipt serial number sequences missing from the cashier's tally sheets.
- Tested a sample of 15 voided transactions for proper authorization.
- Tested the accuracy and completeness of SAO's cash deposits. The auditors reviewed 24 sample days, including the 10 days with the highest daily collections, 8 days with the lowest daily collections, and 6 randomly chosen days to verify that all cash was accounted for. The auditors checked that the receipt books matched the daily total sheets, the bank deposit slips, the bank statements, and the revenue recorded in FAMIS, the City and County of San Francisco's accounting system.
- Tested a sample of 24 deposits to determine whether they were deposited within one business day.

This audit did not review payments received through Airport Accounting, which are subject to greater system oversight. Due to SAO system limitations, the auditors were unable to confirm that all transactions were recorded in SAO's receipt books.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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AUDIT RESULTS

The SAO Deposited All Cash Received

Out of a sample of 24 days tested, the auditors found that the cash recorded in SAO's receipt books matched the amount deposited into the bank. All cash receipts were deposited.

SAO Does Not Have Appropriate Controls to Ensure That All Cash is Accounted For

Although all cash was accounted for, the auditors found that this was not due to an effective control structure over the cash handling process. The SAO does not have appropriate controls to ensure that all cash is secure and accounted for. The SAO needs to strengthen segregation of duties and its controls over record keeping, authorization, asset custody, and reconciliation. When strong financial controls are in place, theft or errors may be prevented or discovered early when the dollars involved are minor.

SAO has weak segregation of duties

The SAO has weak segregation of duties. Segregation of cash handling duties is a fundamental control for organizations that collect cash. Segregation of duties involves separating the responsibility for the following tasks: receiving cash, preparing deposits, depositing cash, recording deposits to the general ledger, and reconciling cash. This division of duties helps create a structure that makes it harder for accounting errors or theft to go undetected. It provides a system of checks and balances that helps ensure all cash is properly accounted for.

The SAO has weak segregation of duties because one employee is primarily responsible for receiving cash, preparing the deposit, reconciling receipts to the deposit, and depositing the cash. Exhibit 1 shows the SAO's current segregation of duties and Exhibit 2 provides an example of how duties can be segregated to strengthen cash handling controls.

EXHIBIT 1 **SAO's Current Segregation of Duties**

Role	Handling Cash	Preparing Deposit	Reconciling Receipts to Deposit	Recording Deposit to GL	Making Cash Deposit	Comparing Deposits to GL Entries
Cashier	x	x	x		x	
Clerks (1-9)	x					
Management Assistants (1-3)	x					
Secretary	x					
Airport Account Clerk				x		
Airport Principal Accountant						x

Source: Auditor analysis of information provided by the SAO.

EXHIBIT 2 **Example of Appropriate Segregation of Duties**

Role	Handling Cash	Preparing Deposit	Reconciling Receipts to Deposit	Recording Deposit to GL	Making Cash Deposit	Comparing Deposits to GL Entries
Individual 1	x				x	
Individual 2	x	x				
Individual 3			x	x		x

Source: Auditor analysis of best practices.

On a monthly basis, an Airport accountant independently compares the SAO's deposits, which are recorded in FAMIS, to the bank statements. Having Airport Accounting record deposits to the general ledger and reconcile the general ledger to the bank statements is a good cash handling control. However, greater segregation of duties is needed. By assigning a cashier to perform the majority of the key cash handling functions, including approving her own reconciliations and deposits, the SAO has created a situation in which errors or fraud could go undetected.

SAO Needs to Strengthen Its Controls Over Record Keeping, Authorization, Asset Custody, and Reconciliation

The SAO also has weak controls over four key cash handling functions:

- Recording keeping: the creation and maintenance of records.
- Asset custody: the physical safekeeping of cash.
- Authorization: the review and approval of transactions.
- Reconciliation: the assurance that all cash is accounted for.

Record Keeping

Controls over cash receipts

- The SAO did not always record key information on its receipts, such as the type of service provided, the quantity of services (e.g., number of badges issued), and the company receiving the service. This makes it difficult for SAO management to verify that the amount charged is correct.

Controls over daily tally sheets

- Based on the SAO's daily tally sheets, the auditors originally found that there were a significant number of gaps in the numbered receipts in the SAO's receipt book. Further testing found that no receipts were actually missing but that 23 out of 32 receipt gaps were due to receipt numbers that were incorrectly recorded in SAO's tally sheets. Such errors increase the difficulty for SAO management to ensure that all receipts and cash have been included in the daily total.

Authorization

Controls over cash deposits

- Cash deposits are not reviewed for accuracy or approved by a second individual.
- The individual preparing the deposit uses the manager's signature stamp to sign off that the deposit is correct. However, the manager does not actually review the deposit.
- A test of 15 voided transactions found that SAO employees void transactions without documenting the reason for the void. Recording the reason for each void helps management ensure that all voided transactions are valid. In addition, a test of the same 15 transactions found that employees did not obtain management's review and approval. There are no mitigating controls to deter an employee from voiding a transaction and pocketing the cash.

Asset Custody

Controls over cash

- Fourteen SAO employees (74 percent of all SAO staff) handled cash transactions and had access to the cash drawer during the audit period. The 14 individuals included the cashier, a secretary, 3 management assistants, and 9 clerks. However, only 6 of those individuals handled greater than five percent of the total cash received. The more people who have access to the cash drawer and cash records, the weaker the security over the cash. If a theft did occur, it would be difficult to determine the responsible individual.
- In one instance, the auditors observed that cash was left unattended on the cashier's desk while she issued a receipt to a customer. Although the cashier's desk is not accessible to the public, cash should never be left unattended.
- The SAO does not perform periodic cash counts. Periodic surprise cash counts confirm the accuracy of the cash balance in the cash drawer, and help discourage employees from removing cash from the drawer for unauthorized reasons.
- Safe keys are not changed upon the transfer or termination of key employees with access to the safe. Changing the safe keys periodically reduces the risk of unauthorized access.
- Although the Annex location only takes in a relatively small amount of cash, the Annex lacks minimal cash handling controls or oversight. This makes it difficult to ensure that all transactions are reported. In addition, they do not have a sign posted at the Annex with the schedule of fees. This would increase the likelihood of overcharging customers and pocketing the difference.

Reconciliation

Controls over receipt books

- Although Airport Accounting issues pre-numbered receipt books, neither Airport Accounting nor the SAO reconcile receipt numbers to ensure that all receipts are accounted for.

Controls over reporting

- The SAO's automated systems are unable to generate reports capable of reconciling cash received (e.g., daily total amount, number of daily transactions, etc). Without a system that can generate reports to reconcile to the cash received, the SAO must rely on other controls to ensure the accuracy of cash totals. As discussed in this report, the SAO has minimal controls over the cash handling process.

SAO Did Not Always Deposit Its Cash Promptly

Daily bank deposits should be made to reduce the amount of excess cash kept in the SAO offices. Eleven out of the 24 daily collections tested (46 percent) were not deposited within one business day. Of these deposits, 8 were deposited one day late, 1 was deposited two days late, and 2 were deposited three days late. According to the SAO, one reason this may occur is because the cashier does not have a back-up when she is out or when she is too busy to make the deposits.

Recommendations

To strengthen its controls over the cash handling process, the SAO should:

1. Establish written policies and procedures to clarify the SAO's approved cash handling process.
2. Further segregate the key cash handling duties among designated SAO employees.
3. Work with Airport Accounting to ensure that there is oversight over the use of its pre-numbered receipts. Specifically, ensure that all transactions have an approved, current receipt number and that all pre-numbered receipts are accounted for.
4. Strengthen its controls over voided transactions by requiring that employees document the reason for each void and obtain a manager's approval.
5. Designate a second individual to review and approve the daily reconciliation and daily deposit.
6. Not allow employees to use the manager's signature stamp.
7. Review which employees should have access to the cash drawer and receipt books and consider limiting employees' access.

8. Ensure that cash is never left unsecured on a desktop.
9. Periodically perform a surprise cash count of the cash drawer.
10. Change the keys to the safe when employees with safe access leave employment with the SAO.
11. Post a fee schedule at the Annex.
12. Post signs notifying customers that they should be issued a receipt for their transaction.
13. Ensure that cash is deposited within one business day.
14. When the point-of-sale system is implemented, balance the daily amount received to the number of transactions processed to the total cash received.

ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

December 7, 2009

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AIRPORT
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SUBJECT: Audit and Recommendation and Response Form
Cash Handling Audit of the Security Access Office (SAO)

Dear Ms. Lediju:

As requested, attached please find the completed Audit Recommendation and Response Form for the San Francisco International Airport's Security Access Office (SAO). This form summarizes and acknowledges the Airport's response to the Cash Handling Audit of the SAO.

If you have any questions, please feel free to contact me at (650) 821-5010 or Ms. Kim Dickie, Assistant Deputy Airport Director, Aviation Security at (650) 821-3925.

Thank you.

Sincerely,

A handwritten signature in black ink that reads "Tryg McCoy".

Tryg McCoy
Deputy Airport Director
Operations and Security

Attachment

cc: Kim Dickie

Recommendation	Responsible Agency	Response
<p>The SAO should:</p> <ol style="list-style-type: none"> 1. Establish written policies and procedures to clarify the SAO's approved cash handling process. 2. Further segregate the key cash handling duties among designated SAO employees. 3. Work with Airport Accounting to ensure that there is oversight over the use of its pre-numbered receipts. Specifically, ensure that all transactions have an approved, current receipt number and that all pre-numbered receipts are accounted for. 4. Strengthen its controls over voided transactions by requiring that employees document the reason for each void and obtain a manager's approval. 5. Designate a second individual to review and approve the daily reconciliation and daily deposit. 6. Not allow employees to use the manager's signature stamp. 	<p>Airport</p>	<p>Concur - A review of cash management procedures and controls in coordination with the Airport's Risk Management Office will be completed and incorporated into a Standard Operating Procedures (SOP) by March 1, 2010.</p>
<ol style="list-style-type: none"> 2. Further segregate the key cash handling duties among designated SAO employees. 	<p>Airport</p>	<p>Partially Concur – Will define roles and responsibilities in SOP and evaluate existing cash handling practices. March 1, 2010. Limited staffing constraints require cross utilization and segregation is difficult.</p>
<ol style="list-style-type: none"> 3. Work with Airport Accounting to ensure that there is oversight over the use of its pre-numbered receipts. Specifically, ensure that all transactions have an approved, current receipt number and that all pre-numbered receipts are accounted for. 	<p>Airport</p>	<p>Concur – The SAO will work with Accounting Department to ensure all transactions have an approved receipt number and all are accounted for. March 1, 2010.</p>
<ol style="list-style-type: none"> 4. Strengthen its controls over voided transactions by requiring that employees document the reason for each void and obtain a manager's approval. 	<p>Airport</p>	<p>Concur – Require SAO employees to document reasons for voided transactions and to obtain designated approval. January 11, 2010.</p>
<ol style="list-style-type: none"> 5. Designate a second individual to review and approve the daily reconciliation and daily deposit. 	<p>Airport</p>	<p>Concur – Badging Office Supervisor to review and approve the daily reconciliation and daily deposit. Immediately</p>
<ol style="list-style-type: none"> 6. Not allow employees to use the manager's signature stamp. 	<p>Airport</p>	<p>Concur – Employees will not use manager's signature stamp. Effective Immediately.</p>

Recommendation	Responsible Agency	Response
7. Review which employees should have access to the cash drawer and receipt books and consider limiting employees' access.	Airport	Partially concur – Evaluate current practice to limit employees to cash drawer and receipt books by January 1. Limited staffing presents challenges in restricting who can accept and handle receipts.
8. Ensure that cash is never left unsecured on a desktop.	Airport	Concur – Establish policies on cash handling practices to secure cash at all times either in a cash drawer or lock box. Immediately.
9. Periodically perform a surprise cash count of the cash drawer.	Airport	Concur – Establish practice with either Risk Management or Accounting Department to conduct periodic cash audits. March 1, 2010.
10. Change the keys to the safe when employees with safe access leave employment with the SAO.	Airport	Do Not Concur – SAO office is a controlled area. Once a SAO employee leaves, any safe/office/airport keys and identification badges are returned at that time. Former employees no longer have access to the back office.
11. Post a fee schedule at the Annex.	Airport	Concur – Fee schedule will be posted at the Security Access Office – Annex. January 11, 2010.
12. Post signs notifying customers that they should be issued a receipt for their transaction.	Airport	Concur – SAO badging clerks will advise customers they should ask for a receipt and a sign will be posted in both office locations. January 11, 2010.
13. Ensure that cash is deposited within one business day.	Airport	Concur – Evaluate procedures to ensure that cash is deposited each business day. Ensure deposits are conducted in a timely manner. Train another employee as a back-up cashier.
14. When the point-of-sale system is implemented, balance the daily amount received to the number of transactions processed to the total cash received.	Airport	Concur – Implement point-of-sale system. March 30, 2010.

